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The Manufacturers Hanover
Financial Digest
Economic Commentary, Selected Financial Data, and Business Indicators

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America Honors Small Business . . .

Next week, the nation will once again be honoring its entrepreneurial spirit with the celebration of Small Business Week. For seven days, beginning May 18, attention will be given to the establishments that dominate our economy—and our lives—every day of the year. Only in this country is the entrepreneurial spirit so entrenched. There are about 15.2 million nonfarm businesses in the U.S. today, and of these, 99 percent are considered small business enterprises. In particular, the current business expansion has sparked an extraordinarily high degree of entrepreneurial activity. The number of new business incorporations, for example, set a record in 1985 at 670,000—5.4 percent above the 1984 level and 26 percent above the number of new incorporations in 1980.

In fact, the small business economy is so much a part of everyday life that it is easily overlooked. Small companies are deeply rooted in every local community and neighborhood and provide entry-level jobs for teenagers, women, minorities and immigrants. Their contributions to the nation's economic health are significant: Small businesses develop new products and services and provide new jobs, technological innovations, entrepreneurial initiative, managerial talent, new skills and training—not to mention spurring older, established companies to greater efficiency and more competitiveness. Small companies are more flexible than their large counterparts in making fast decisions on products and pricing, and they are usually more adept in making their employees feel more integral to the company's success than their large counterparts are able to do.

Small businesses give the United States an economic vitality no other country can claim. In terms of numbers, they employ almost half of the nation's private nonfarm workers, contribute 42 percent of all sales, and generate approximately 38 percent of the gross national product. In fact, small businesses have become the main driving force behind the nation's economic growth. From 1970 to 1980, small businesses provided the largest chunk of the 20 million new jobs generated. What is more, this trend has accelerated during the 1980s. Even during 1981 and 1982, when the worst recession in decades caused massive layoffs in the steel, auto and other basic industries, small businesses posted a relatively strong performance, demonstrating their ability to adapt and grow in times of economic adversity and providing a moderating force. According to the Small Business Administration (SBA), small businesses created a total of over 2.6 million new jobs during 1981 and 1982, more than offsetting the 1.7 million positions lost by larger businesses—a net gain of 984,000 new jobs.

. . . For Its Many Contributions

The current economic expansion has created opportunities for employment growth for small and large companies alike, but large businesses have not kept up with the employment gains of small companies. In the 12 months ending September, 1985, small businesses increased their payrolls by nearly six percent, while large companies boosted theirs by only 0.6 percent. This year, small businesses again will do most of the hiring, according to a survey by Dun & Bradstreet Corporation. Nearly two thirds of the three million new jobs that businesses plan to create this year will be generated by companies that employ fewer than 100 workers.

There is another reason besides job creation that America's small businesses should be saluted for—namely, innovation. Small entrepreneurs have traditionally been the major innovators in American business. Smaller companies tend to create more new products and services. According to the SBA, small businesses have introduced two and a half times as many innovations as large companies relative to the number of people employed and have launched new industries ranging from semiconductors to gene splicing. Often, small companies spur their larger rivals to develop new strategies. These innovations keep U.S. companies more competitive at home and abroad.

Long Island Prospers

One example of how an economy which is dominated by small business can prosper is Long Island, a suburb of New York City. Nine out of every ten companies in Long Island employ fewer than 20 people and these companies generate the preponderance of employment growth. With 1.1 million jobs

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in 1985, nonagricultural employment was at a record level. A total of 40,000 new jobs was added to payrolls last year, on the heels of a record 53,000 new positions created in 1984. The gains were posted across the entire employment spectrum. Even manufacturing employment, which nationally has been in its own mini-recession, generated more than 3,000 new positions—an increase of 1.8 percent from 1984. Although this gain was substantially below the increase in factory employment that took place in 1984 when more than 9,000 new factory jobs were created, it compares with an increase of only 0.1 percent in factory employment nationally, and declines of 5.2 percent in neighboring New York City and 2.3 percent in New York State.

The strong growth in employment allowed Long Island to enjoy one of the lowest unemployment rates in the country. At 4.4 percent last year, it compared with a jobless rate of 7.2 percent nationwide, 6.5 percent in New York State and 8.1 percent in neighboring New York City.

Long Island's economic vitality is even more dramatic when viewed in perspective. Early in the 1980s, the U.S. suffered two back-to-back recessions which, by some measures, were the most severe in the postwar period. The Long Island economy came through literally unscathed, as it continued to create new jobs. The Long Island counties of Nassau and Suffolk have added more than 173,000 jobs so far in

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit	5/7/86		
U.S. Gov'ts and Agencies Owned Outright & RPs	190.972	+ 3.936	+ 9.677
Loans to Depository Inst.	.905	– .152	+ .271
Float	.644	+ .123	– .052
Total Reserve Bank Credit	209.066	+ 4.378	+13.474
Treasury Deposits with Federal Reserve Banks	7.246	+ .477	– 5.311
Currency in Circulation	195.248	+ 1.217	+13.332
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	145.787	– .214	+28.276
	5/7/86		
Member Bank Reserves:			
Total Reserves Held	47.753	– .796	+ 7.233
Excess (Deficiency)	.928	+ .047	+ .229
Net Free Reserves	.584	– .107	+ .442

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1 (4/28/86)	648.6	+ 11.3‡	+ 12.1‡
M2 (March '86)	2,590.4	+ 3.8	+ 6.6
M3 (March '86)	3,258.1	+ 7.2	+ 6.9
Domestic Nonfinancial Debt (4th Q'85)	6,867.9	+ 19.2	+ 14.7

†Seasonally adjusted. * Seasonally adjusted annual rate. ‡ Four-week moving average.

New York Money Market

Offering Rates 5/9/86	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	6.08%	6.09%	6.13%
* Federal Agencies	6.32	6.32	6.35
* Municipal Notes—High Grade (46% Taxable Equivalent)	7.41	7.69	7.87
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	6.48	6.50	6.55

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	6.65%	Jun.	6.65%
15- 29 days	6.62	Jul.	6.60
30- 59 days	6.60	Aug.	6.55
60- 89 days	6.55	Sep.	6.50
90-179 days	6.35	Oct.	6.45
180-239 days	6.05	Nov.	6.40
240-270 days	6.05		

‡Industrial Paper—Prime			
30- 89 days	6.55%	†Federal Funds Effective Rate	6.80%
90-120 days	6.45		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'86	$ 4,117	$ 4,059	$ 3,918
Gross National Product (1982 Dollars)*	1st Q'86	$ 3,619	$ 3,591	$ 3,548
Percent Change, Annual Rate	1st Q'86	3.2	0.7	3.7
Change in Consumer Prices*	Mar '86	– 4.8%	– 4.8%	6.0%
Change in Producer Prices*	Mar '86	– 13.2%	– 19.2%	0.0%
Civilian Employment (Thousands of Persons) †	Apr '86n	108,892	108,788	106,872
Unemployment as % of Civilian Labor Force †	Apr '86n	7.1%	7.2%	7.3%
Personal Income*	Mar '86	$ 3,407	$ 3,401	$ 3,258
Leading Indicators Composite Index (1967=100)†	Mar '86n	176.6	175.7r	167.6
Industrial Production Index (1977=100) †	Mar '86	125.1	125.7	124.0
Net Change in Consumer Installment Credit †	Feb '86	$ 4.97	$ 7.66	$ 6.85r
U.S. Merchandise Trade Balance †	Mar '86n	–$ 14.52	–$ 11.37	–$ 10.14
Plant and Equipment Expenditures*	2nd Q'86	$400.68(a)	$390.66(a)	$387.83
Private Housing Starts (Thousands of Units)*	Mar '86	1,949	1,997	1,849
New Construction Expenditures*	Mar '86n	$ 354.6	$ 358.9r	$ 333.7
Total Business Inventories †	Feb '86	$ 585.1	$ 585.0	$ 578.5
Total Business Sales †	Feb '86	$ 427.2	$ 432.0	$ 418.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

this decade, a 19.3 percent gain and more than double the national rise of 8.8 percent. Employment in New York State as a whole rose only eight percent in the same period. Long Island's employment increase so far in the 1980s is only 20,000 jobs short of the rise generated throughout the entire decade of the 1970s!

The most surprising development is the resurgence in manufacturing. About 16,000 new factory jobs have been created in Nassau and Suffolk thus far in the 1980s, in contrast to the decline in the nation and in many other parts of New York State. For example, 1.6 million factory jobs nationwide have disappeared so far in this decade.

The underlying strength of the Long Island economy is reflected in New York State's index of business activity. At the end of last year, Nassau and Suffolk's index stood at 211, up from 198 a year earlier, and it was higher than the indexes of any other area within New York State. Since the index, which is prepared by the New York State Department of Commerce, uses 1967 as its base year, it, in effect, demonstrates how rapidly the Long Island economy has grown in the past 19 years. And in fact, it shows that the bi-county's economy enjoyed the fastest growth in the state during the 1967-1985 period.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (4/23/86)	156,861	– 91	– 21
New York City (4/30/86)	34,891	+ 489	+ 1,345
Commercial Paper (4/30/86)	300,361	– 536	+44,346

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/23/86)	258,842	– 2,644	+ 3,636
New York City (4/30/86)	57,988	+ 473	– 4,075

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/23/86)	734,286	– 936	+ 64,139
New York City (4/30/86)	161,533	+ 1,506	+ 12,540

Financial Markets

	Friday 5/9/86	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	6.22%	– .06	– 1.76
180-Day Bills†	6.33	– .05	– 1.98
Longest Bills†	6.46	– .06	– 2.25
Recent Issues:			
6⅝s 4/30/88	6.83	– .02	
7¼s 3/31/90	7.13	– .01	
7⅜s 5/15/96 (When Issued)	7.48	NA	
7¼s 5/15/16 (When Issued)	7.39	NA	
Municipals:			
Bond Buyer–20 Bond Index* (5/7/86)	7.36%	+ .03	– 1.75
Blue List Total ($ Million)	$2,262	+ $ 34	+ $ 583
30-Day Visible Supply ($ Million)	$4,923	– $462	+ $1,998
Total	$7,185	– $428	+ $2,581
Corporates:			
Moody's Aa Composite (5/7/86)	9.31%	– .02	– 3.28
30-Day Visible Supply ($ Million)	$3,620	+ $ 35	+ $2,985
Stocks:			
Dow-Jones Averages:			
Industrials	1,789.43	+ 14.75	+ 515.25
Transportation	788.03	+ 1.47	+ 171.00
Utilities	182.91	+ 1.50	+ 23.18
65 Stocks	695.81	+ 4.56	+ 172.36
N.Y.S.E. Composite Index	137.12	+ 1.73	+ 30.48
N.Y.S.E. Avg. Daily Vol. for Week (000's)	125,382	–13,186	+ 17,502

* 46% Taxable equivalent 13.63%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 5/9/86	Week Ago
Overnight	6.75%	6.81%
1 month	6.81	6.88
3 month	6.75	6.81
6 month	6.75	6.81
1 year	6.81	6.88
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	7.60%	7.60%
Long Term (7 to 15 yrs.)	8.00	8.25

FOREIGN EXCHANGE SPOT RATES

New York Opening (5/9/86)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02249	44.47
Canada	.7245	1.3802
Denmark	.1238	8.0800
France	.1441	6.9375
Germany	.4592	2.1775
Italy	.0006682	1496.50
Japan	.006175	161.95
Mexico	.001927	519.00
Netherlands	.4078	2.4520
Switzerland	.5514	1.8135
U.K.	1.5405	.6491

Better than ever in our 20th year.

The Manufacturers Hanover Westchester Classic will be held at the Westchester Country Club in Harrison, NY, June 2-8, 1986.

- Roger Maltbie, defending champion and other top pros from the PGA Tour, will compete for $600,000 in prize money, and the winner's purse of $108,000.
- Proceeds help support the following area hospitals: United, Lawrence Auxiliary, New Rochelle, Northern Westchester, Phelps Memorial, St. Agnes, St. John's, St. Joseph's, St. Vincent's, Blythedale Children's, Greenwich, Mount Vernon, White Plains, Yonkers General.
- Tickets on sale at all these hospitals through June 1st, thereafter at the gate. To charge with MasterCard or VISA, call 212-808-8519, Monday to Friday, 9am-5pm.
- For more information call (914) 967-5356.

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